



# *MMS and Wyoming*

*U.S. Department of the Interior ~ Minerals Management Service  
Summer 2003*

***MISSION: The Minerals Management Service manages the minerals resources on the Outer Continental Shelf and Federal and Indian minerals revenues to enhance public and trust benefits, promote responsible use, and realize fair value.***

**In FY 2002 MMS collected \$690,659,798 from Federal onshore leases and distributed \$359.7 million to the State of Wyoming.**

**MMS also collected \$14,261,004 from American Indian leases located within the State of Wyoming and disbursed that amount to the Bureau of Indian Affairs to be distributed to the applicable Indian owners. (Major Indian Tribes receiving mineral revenues for properties within the State include: Shoshone-Arapaho Tribes.)**

**From 1968 through FY 2002 the following monies have been distributed to the State of Wyoming from Federal Outer Continental Shelf (OCS) funds approximately:**

- **\$30.1 million for Land and Water Conservation Fund State Grants**
- **\$56.6 million for Land and Water Conservation Fund Federal Acquisitions**
- **\$9.3 million for Historic Preservation Fund Grants**

***MMS programs provide major economic and energy benefits to the Nation, taxpayers, States, and the Indian community. For example—***

The State of Wyoming has 20,180,316 acres of Federal and American Indian lands which include 3,182,011 acres with 6,196 producing leases. The remaining 16,998,305 acres represent 23,269 non-producing leases.

The State of Wyoming derives production royalties from carbon dioxide, coal, gas, gas lost, gas plant products, oil purge liquor, sodium, sulfur, and trona ore.

The Minerals Management Service collects royalties, rents, bonuses and other forms of revenue from Federal and Indian leases in Wyoming and disburses approximately 50 percent of those revenues to the State.

## I. Ongoing MMS Relationships with the State of Wyoming

### Cooperative Efforts with the State

The State of Wyoming's Department of Audit has a cooperative audit agreement with MMS under Section 205 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) to audit Federal oil and gas leases located in the State of Wyoming. As provided for in the 1992 Appropriations bill, that agreement also allows Wyoming to audit Federal solid mineral leases within the State.

Funding for the 205 agreement with Wyoming in FY 2003 is \$ 1,561,153 covering 22 auditors and support staff.

The only delegated function that Wyoming has assumed under the Royalty Simplification and Fairness Act of 1996 (RSFA) is audit.

The Department established the Royalty Policy Committee (RPC) as part of the Minerals Advisory Board in 1995, in order to gain insight and advice on policies and procedures on mineral royalty issues from the States, tribes, industry and the public. The State of Wyoming has a representative who serves as a member of the Coal Subcommittee and another representative from the State recently served as a member of the Marginal Properties Subcommittee. The Subcommittee was tasked with making recommendations to the RPC on the provisions of RSFA that provide accounting and auditing relief for marginal properties and allow the prepayment of royalties on marginal properties.

In 1996 MMS undertook a reengineering effort to modernize its financial systems; provide for faster resolution of compliance issues; and to allow for quicker distribution of monies collected. This reengineering effort was necessary because of aging computer systems, changing energy markets, and the need to implement business cycles and processes that were better aligned with industry and financial institutions. This was the biggest reengineering undertaking the program had engaged in since its inception in 1982. In order for MMS to achieve its goals it developed two core business processes: (1) financial management and; (2) compliance and asset management. The Minerals Revenue Management (MRM) Compliance and Asset Management (CAM) process ensures that Federal mineral revenues, whether received through in-kind royalties or in-value royalties, are accurately reported and paid and that the compliance status of all leases is known.

The MRM Financial Management process ensures the proper receipt and timely processing of Federal and Indian mineral revenues and information to the appropriate recipient. The goal of the financial process is to give recipients access to their revenue within 1 business day of MRM receipt.

The State of Wyoming was involved in MMS's compliance reengineering effort and contributed significantly to developing and testing the new compliance process as MMS proceeded this

major effort.

## II. Major Issues of Interest to the State of Wyoming

**Royalty-in-Kind:** Beginning in 1998, MMS commenced a series of royalty in kind (RIK) pilots to test and evaluate the viability of MMS taking its production royalty in kind (as opposed to in-value) and selling it through a competitive bid process. The pilots are---1) a Wyoming oil pilot; 2) a Gulf of Mexico oil pilot; and 3) a Gulf of Mexico natural gas pilot. More recently, MMS also began another pilot—a Strategic Petroleum Reserve (SPR) oil pilot, (see issue below for more information). With respect to the Wyoming pilot, after four years in operations, MMS and the State of Wyoming have successfully continued their joint efforts in the crude oil RIK initiative after competitive sales of RIK oil in Wyoming reached 4,000 barrels per day. In early 2003 MMS began preparations for the next phase of the RIK program with the State. With respect to the Gulf oil pilot, up until April 2002, MMS was taking about 50,000 barrels per day of royalty oil under contracts awarded by MMS through competitive sale. With expiration on March 31, MMS committed the volumes to the SPR initiative, with deliveries beginning April 1, 2002. With respect to the natural gas pilot, currently about 350,000 mmbtu per day of royalty natural gas is being disposed of through competitive sales. This pilot has been merged with the Texas 8(g) pilot which MMS operated from 1999-2001.

**Administration Initiative to use Gulf of Mexico Oil to Fill the Strategic Petroleum Reserve:** In late 2001, President Bush announced an initiative to fill the remaining capacity of the Strategic Petroleum Reserve (SPR) utilizing Federal RIK oil. Approximately 120 million barrels of this RIK oil from the Gulf of Mexico will be used to support the SPR fill. The fill began in April 2002 and is estimated to be completed in December 2004, with contract closeouts and reconciliation's completed by June 2005.

**Federal Oil Valuation Regulation:** MMS published the final version of the new rule in the Federal Register on March 15, 2000. It took effect June 1, 2000. However, in March 2003, MMS held a series of public workshops to discuss issues regarding the existing regulations for valuing crude oil produced from Federal leases. The Federal oil valuation rule is working well and accomplishes its objective of ensuring a fair return on Federal properties. However, MMS continually evaluates the effectiveness and efficiency of its regulations. MMS's experience with the 2000 Federal oil valuation rule, 5 years of experience with taking royalties in kind, and information learned during litigation of valuation rules has led MMS to identify specific technical issues that warrant additional discussion. These issues focus on which published market prices are most appropriate for valuing oil and what transportation deductions should be allowed. MMS is currently reviewing all public comments received.

**Indian Oil Valuation Regulation:** In 1997, MMS initiated a rulemaking for valuing oil produced from Indian leases reflecting MMS' ongoing trust responsibilities with the Indian tribes. The purpose of the proposed rulemaking was to ensure that Indian lessors receive maximum revenues from crude oil production off Indian lands as well as receive timely royalty payments at the time royalties are due.

MMS published the initial proposed rule on February 12, 1998, with a supplementary proposed rule issued on January 5, 2000. The supplementary proposed rule modified the comparative value to the average of the daily high spot prices for deliveries in the production month. The rule was drafted and was under Departmental review and postponed. On February 12, 2003, MMS reopened the comment period on the proposed rule for valuing crude oil produced from Indian lands at the same time it announced workshops on the Federal Oil Valuation Rule to discuss technical revisions. The comment period closed on April 12, 2003, and the Department is currently reviewing public comments.

**MMS Biannual Joan Killgore Award Honoring Tribal Members Working With MMS:** In 2002, the Minerals Management Service presented its first annual Joan Killgore Award which recognizes individuals from Indian tribes who have made a significant contribution toward both improvement of a tribe's ability to manage its own minerals revenue program, as well as self-governance. MMS will present this award every two years to individuals who make an outstanding contribution to the tribes.

The MMS Joan Killgore Award is named for a highly-motivated and dedicated MMS employee, who long served as the agency's principal point of contact for Indian royalty management issues.

**Natural Gas Regulation:** On April 10, 2003, MMS announced it will be holding four workshops to discuss issues regarding the existing regulations for valuing natural gas produced from Federal leases. The purpose of the Federal natural gas valuation rule is to ensure that the public receives a fair return on federal resources. MMS continues to evaluate the effectiveness and efficiency of its regulations. While the Federal gas valuation rule generally is accomplishing its objective, that rule is now 15 years old. With the changes having taken place in the natural gas market over the past 15 years, past experience with the 2000 Indian gas valuation rule, and 5 years of experience with taking royalties in kind, MMS has identified possible changes to the existing rule.

**Indian Gas Valuation Regulation:** On August 10, 1999, MMS published a final Indian Gas Valuation Rule which became effective January 1, 2000. The new gas rule made several significant changes to valuation methods. This rule made valuation of Indian gas more efficient for companies and MMS and at the same time fulfilled MMS' trust responsibility to the Indian community.

MRM contributes to the Department's ability to provide accurate and timely information and revenues to Trust beneficiaries. Enforcement of the Indian gas rule and completion of major portion and index valuation compliance work for the year 2000 resulted in the collection of more than \$1.4 million.

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